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ABSTRACT

This report describes the main areas of economic research supported by the Ford Foundation in the 1970s, with an emphasis on the work in international economics. It is divided into five sections: the international economy, less-developed countries (LDCs) and the new economic order, the industrialized world and inflation, workers and wages, and research institutions. The new international monetary system, the growth of world trade, and the effects of increased oil prices are areas of funded research discussed in section 1. North-South economic relations, the debt problems of oil-importing developing countries, and the implications for the developed world of the growing industrialization of the less-developed regions are examples of funded research areas specified in section 2. In section 3, the economic problem of inflation is dealt with, including discussion of tax-based income policies (TIP) and a review of the funding by the Ford Foundation in this area. Funding for studies of women at work, minority youth unemployment, and unemployment in LDCs are delineated in section 4. The last section describes the Brookings Institution, the National Bureau of Economic Research, and other nongovernmental centers of economic research funded by the Ford Foundation. A list of Ford Foundation grants for economic research is included. (NE)

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The Search for a New Economic Order

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*To foster activities "designed to advance the economic well-being of people everywhere and to improve economic institutions for the better realization of democratic goals."***

For most of its thirty-year history as a national philanthropy, the Ford Foundation has supported the work of economists.

From 1953 until about 1968 the Foundation had a formal program in economic development and administration, distributing some \$95 million in grants to university economics departments, research institutions, economics education programs, and to hundreds of professional economists and graduate students. Work was supported on such themes as natural and human resource development, economic growth, urban economics, econometric and mathematical modeling, and the impact of government and technology on the economy. In addition to this formal program, other offices of the Foundation supported the work of economists as well.**

A presumption of this work was that a wide range of economic problems could be avoided or ameliorated if economists could do the research that

would give them and policy makers a better understanding of economic processes. Research that would illuminate the complex interactions of the economic system, and governmental actions that could be taken to counter difficulties, would assure greater economic health and prosperity for all.

While the Foundation has continued to support

**Report of the Study for the Ford Foundation on Policy and Programs*, 1950.

**The Foundation's early activities in economics are described in two reports, *The Wealth of a Nation* (Ford Foundation, 1959) and *Prospecting in Economics* (Ford Foundation, 1960). The early planning leading up to the Foundation's decision to support work in economics, as well as an inter-university research project on the role of labor in economic development, are set forth in *Industrialism and Industrial Man in Retrospect* by James L. Cochrane, formerly professor of economics at the University of South Carolina, available from University Microfilms International, Ann Arbor, Michigan, 48106.

economic research in recent years, the focus has not been on economics as an academic discipline but on certain economic problems and processes. In 1973, for example, the Foundation initiated a program of research aimed at clarifying the workings of the international economic order, which had been disrupted by such events as huge increases in the price of oil, the abandonment of fixed currency exchange rates, and the emergence of new sources of economic power. The Foundation has also supported specific inquiries on such economic and social issues as inflation, unemployment, energy, the growing participation of women in the labor force, environmental protection, underdevelopment, and the multinational corporation.

This report describes the main areas of economic research supported by the Foundation in the 1970s, with particular emphasis upon the work in international economics.

A Dismal Decade

The 1970s was not a good decade for the performance of economic systems or for the economist. Whereas during the 1960s economists had earned laurels for "fine tuning" the U.S. economy to high levels of productivity, events of the 1970s severely shook understanding of the economic system and the ability of experts and political policy makers to control it. Among these events were a slowdown of economic growth and productivity in the industrialized countries, the simultaneous appearance in many countries of high unemployment and inflation, the collapse of the postwar monetary system, and the decline of the dollar in international markets.

Other developments upset the historic calculus that economists have used to understand the economic system:

- the growing integration of a world economy in which nations are linked by vast flows of goods, money, technology, and workers;

- demands from the less-developed countries for a new international economy that would narrow the growing gap between the world's rich and poor nations;

- the huge growth in the number of women entering the work force, particularly in the United States;

- the penetration throughout the world of multinational corporations;

- a series of unsettling financial events, including the buildup of petrodollars (reserves of members of the Organization of Petroleum Exporting Countries) and extraordinarily high interest rates, and the mounting debt of the less-developed countries to pay for oil and other imports;

- in the United States, the capture of markets by foreign competitors in the steel, auto, electronic, and other industries;

- the continued growth of government in the U.S., brought on in part by the ambitious social programs of the 1960s and new environmental regulations;

- the emergence of a group of rapidly industrializing Third World countries, giving rise to a new trade protectionism in the older, slower-growing industrialized countries.

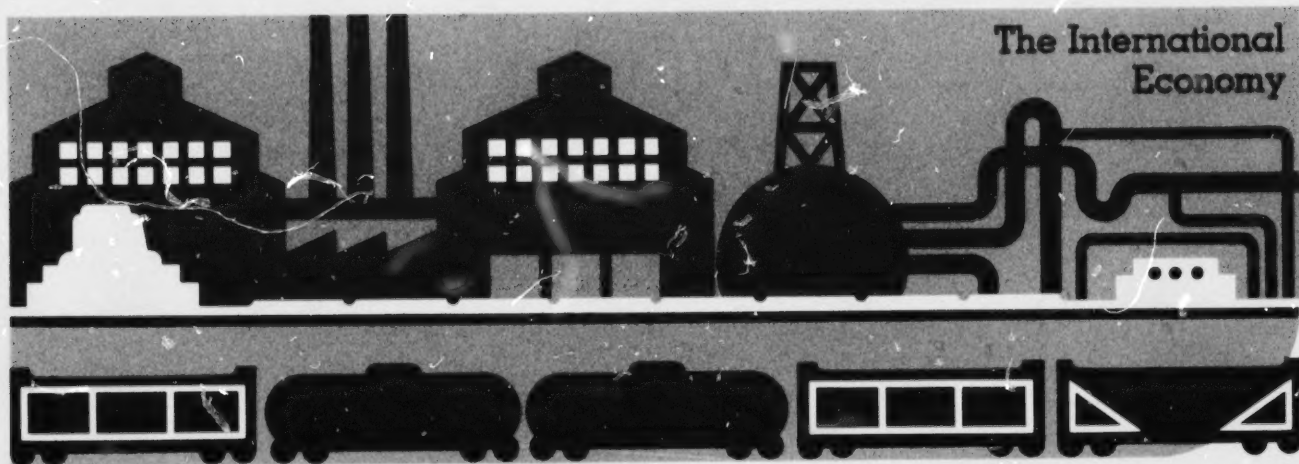
Yet the economic system was still resilient enough to absorb these unsettling events. Total output in the noncommunist industrialized countries still rose by 40 per cent in the 1970s compared to 60 per cent in the

1960s. The world monetary system, which at first was thought to be disastrously weakened by the huge oil-induced financial flows, did not collapse. Nor did the oil-poor developing countries go bankrupt. The poor nations as a whole even managed to grow faster than the rich.

Still, the weight of evidence suggested that the nature of capitalism had changed and that the policy tools of economic management which had been used in an earlier era to assure economic growth no longer applied. For twenty-five years many economists throughout the industrialized world had accepted the doctrine that government could assure stable prices, high employment, and a steadily growing gross national product by adjusting money supply, taxes, and government spending. Government could curb inflation by cutting its own spending or by increasing taxes. With the acceleration of inflation in the late 1960s and 1970s, these tools

no longer seemed to work; government manipulation of total aggregate demand, whether up or down, could not cure the problems of chronic inflation, structural unemployment, and low productivity.

The failures of economic management gave rise to serious misgivings about the continued ability of the United States and other industrialized democracies to guarantee rising standards of living for their peoples and to provide needed services. An economy saddled with inflation, unemployment, and low productivity undercuts efforts to achieve social and economic goals, such as improved education, advancement of minorities, urban rebuilding, eradication of poverty, and extension of high-quality medical care. Social progress requires a flourishing economy, and economists and policy makers were divided and unsure as the decade drew to a close about what was ailing the economy and what could be done about it.



The new era of international economic relations in the 1970s was marked by an increasing integration of national economies, the ebbing of U.S. political and economic power, the emergence of new centers of economic strength, and the breakdown of an international monetary and trading system that had governed international economic relations for thirty years. Some argued that this new order functioned badly; in the industrialized countries it was thought to constrain economic growth and contribute to inflation and unemployment. Spokesmen for the less-developed countries charged it offered insufficient promise of correcting the great disparities of wealth between rich and poor countries.

For the twenty-five years following World War II the international economic order worked remarkably well. Founded on principles of free trade, a well-ordered international monetary system, and free flows of capital and technology, the system had produced

steady economic growth and had avoided severe recessions and inflation. Real gross national products (GNP) in most advanced Western nations increased by 3 to 4 per cent a year and in Japan at a remarkable 9 to 10 per cent. The less-developed countries, although far behind the advanced northern countries in GNP and per capita income, shared in this growth; rates rose from 2 per cent in the 1950s to 3.4 per cent in the 1960s.

To administer the postwar international economic order, several new international institutions had been created. The International Monetary Fund was set up to police the gold-based, fixed exchange rate system that had been established at Bretton Woods, New Hampshire, in 1944 and to provide credit to countries in financial difficulty. The International Bank for Reconstruction and Development (the World Bank) was designed to arrange capital transfers, first from the U.S. to war-torn Europe and later from

the developed to the developing world. GATT (the General Agreement on Tariffs and Trade) was organized to stimulate the free flow of goods through negotiated reductions of tariffs and other trade barriers.

During the 1950s and 1960s dollars had flowed out of the United States in ever larger streams to finance European reconstruction under the Marshall Plan, U.S. military and foreign aid expenditures, foreign investment by U.S. corporations, and the purchase of foreign goods. Many of these dollars were to return to the U.S. through foreign purchases of U.S. products, but not in sufficient quantity. Year after year during the 1960s the U.S. balance of payments—the difference between what the U.S. spent, loaned, or invested abroad and what it received from abroad—was in deficit.

At Bretton Woods, the participating governments had agreed to a fixed exchange rate system in which the values of their currencies were pegged to the dollar, which in turn was pegged to gold valued at \$35 per ounce. The system was devised to prevent a repetition of the monetary chaos of the 1930s when countries competitively devalued their currencies in order to protect their domestic economies from worldwide depression. The Bretton Woods system was based on a universal acceptance of the dollar as an international currency; dollars could be invested at remunerative rates of interest and, unlike most other currencies, could be redeemed for gold.

The Bretton Woods system worked well for twenty years, but began to unravel with the huge buildup of dollars held by foreigners. Although the U.S. had large stores of gold, they could be quickly drained if

the foreign dollar holders decided to redeem their holdings. The U.S. was also coming under increasing pressure to do something about its persistent dollar deficits. General de Gaulle claimed the fixed rate system gave the U.S. "exorbitant privilege" by enabling it to finance its deficits by issuing more dollars. Many American economists said the system put the U.S. into a straitjacket; it was the one country that could not adjust its balance of payments by devaluing its currency.

Buffeted by high rates of inflation brought on by the Vietnam war and by a worsening balance of payments, the U.S., in August, 1971 unilaterally terminated the Bretton Woods system by suspending its pledge to convert dollars into gold. The action, followed by a devaluation of the dollar in 1973, led to a system in which the currencies of the major Western trading partners were permitted to float against each other in more or less free markets. The suddenness of the action, and the fact that the United States did not consult its allies, placed in jeopardy the entire fabric of international economic cooperation.

The changes in the world economy set off by the dollar devaluation and other events of the 1970s have sown a great deal of confusion among policy makers and economists. For many years economists had not paid much attention to the world economy, devoting themselves more to the elaboration of models of domestic economies that took relatively little account of the international sphere.

In the early 1970s the Ford Foundation began a program aimed at improving knowledge of international economic problems and aiding the search for solutions. A variety of activities have been support-

ed, including a series of worldwide competitions to stimulate research by experts on various aspects of the new international economic order; conferences and workshops that have linked researchers with policy makers to discuss findings of the research; and training, research, and institutional development in First and Third World countries to strengthen their participation in international economic affairs.

One of the first steps taken by the Foundation was to commission C. Fred Bergsten, then of the Brookings Institution, to look at the many problems of the world economy and lay out an agenda for research.* Bergsten and his associates interviewed hundreds of government officials, scholars, businessmen, bankers, and labor union officials from more than twenty countries. His report, with eight supporting papers by experts, (*The Future of the International Economic Order: An Agenda for Research*, Ballinger Publishing Co.) was published in 1973.

In his report Bergsten wrote that "the old international institutional framework—a monetary system based on fixed exchange rates and the dollar, a trading system led by the United States devoted to the principles of free trade and nondiscrimination—had broken down." He noted that the present configuration of relatively equal major world powers pursuing economic goals which often conflict was

*A graduate of the Fletcher School of Law and Diplomacy, Bergsten had been on the staff of the National Security Council in the White House and was representative of a younger generation of international economists who not only had strong academic credentials but experience in dealing with difficult policy issues inside of government. Bergsten later served, from 1976 to 1980, as assistant secretary for international affairs in the U.S. Treasury Department.

"uncomfortably reminiscent" of the period following World War I, which laid the groundwork for the Great Depression.

Bergsten recommended a high-priority program of research that would help lay the basis for a new and better international economic order. The increasing interpenetration of the world economy, he wrote, caused inflation and recession to be transmitted among countries more quickly and diminished the effectiveness of domestic economic policies. He called attention to the emergence of new actors on the world economic stage, including Communist and Third World countries, multinational corporations operating virtually unrestrained by considerations of national sovereignty, and a network of banks that lend and borrow on an international scale.

Bergsten recommended that the research should investigate such issues as international monetary relations, trade, foreign investment, coordination of national economic policies, East-West and North-South economic relations, environmental protection and energy flows, and the management of the international economic structure. Specific questions to be addressed were whether the world economy inherently favored the rich countries, whether new international institutions were needed to manage the world economy, and how the costs and benefits accrued to different groups in particular countries from freer trade, foreign investment, and changes in exchange rates.

The New Monetary System

Since 1971, when the United States stopped converting dollars into gold, the world has operated under

an exchange rate system in which currency values are determined by the interplay of supply and demand in the marketplace. The system has come to be characterized by a "managed" float—managed in that exchange values are subject to some control by the buying and selling of currencies by central banks.

Economists have found this new system to be an intriguing intellectual puzzle. They have tried to explain why exchange rates fluctuate so sharply and to look for mechanisms that might moderate the swings. Critics complain that flexible rates have introduced a new measure of uncertainty into financial transactions and have not corrected some of the major abuses of the fixed rate system, including the transmission of inflation throughout the world. Many economists believe that a new system of exchange rate adjustment needs to be devised that will combine the advantages of both the flexible and fixed rate systems. A significant part of the research supported by the Ford Foundation on the workings of the new international economic order has been aimed at exploring the development of such a system.

Among the scholars engaged in this effort are William Branson, Dwight Jaffee, and Peter Kenen of Princeton University, Jacob Frenkel of the University of Chicago, Rudiger Dornbusch of the Massachusetts Institute of Technology, Elhanan Helpman and June Flanders of Tel Aviv University, Michael Porter of the Australian National University, and Alexander Swoboda and Hans Genberg of the Graduate Institute of International Studies in Geneva.

Several of these economists have been developing

an "asset market" model to explain the large oscillation of exchange rates over brief periods. For example, the dollar depreciated in value relative to the Japanese yen by 35 per cent from the beginning of 1977 until the middle of 1978. A movement of this size cannot be explained by the fact that American goods traded internationally became that much more overvalued than the same Japanese goods—the so-called "purchasing power parity" explanation.

In the asset market model, the movement of capital funds from one country to another tends to dominate exchange rate movements. Interest rate differentials thus take on an important role. Suppose the monetary authorities in the United States increase the money supply and thereby depress interest rates. This leads to a flight of capital from the U.S. to other countries where interest rates are higher. In time, the greater demand for foreign assets relative to U.S. assets will bring about a depreciation in the value of the dollar. The tendency of investors to anticipate this depreciation intensifies the capital outflow and causes exchange rates to overshoot what would be their equilibrium value under the new interest rates. The world's "hot money"—funds that tend to flow freely among capital markets—thus tends to dominate exchange rate movements.

A world of floating exchange rates poses special problems for small countries, which must decide against which currency or set of currencies to peg its own currency. June Flanders and Elhanan Helpman of Tel Aviv University examined this question for the case of Israel in a Foundation-supported project. They have attempted to compute an optimal exchange rate at which the Israeli pound would be

pegged to a basket of currencies of its major trading partners, including the United States, West Germany, Great Britain, and France. They conclude that the composition of the basket should be determined by the policy goals the small country wants to pursue; for example, does it want to stabilize or improve its balance of trade, the internal price level, or the level of employment?

According to Flanders and Helpman, if Israel wanted to create more domestic employment, it might try via its exchange rate policy to lower the price of its exports relative to the price of its imports. However, this policy might worsen Israel's balance of trade because the increased price of its imports would more than offset the foreign-currency gains achieved by the increased sales of its exports. But the level of employment would improve because Israel would then be producing more domestic goods and buying less imported goods. The Israeli scholars have attempted to show that the exchange rate policy pursued by Israel's central bank in the past has not always been well conceived because it has not consistently followed the bank's professed goal of stabilizing the balance of trade.

To communicate the results of the research on exchange rate policy to academic, governmental, and private-sector economists, the Foundation has supported a series of seminars organized by Dwight Jaffee of Princeton and Rudiger Dornbusch of MIT. The seminars have examined such topics as the interaction of exchange rates and economic stabilization policy, and exchange rate determination in both the short and long term. Papers prepared for the sessions have been published by Princeton Uni-

versity. The Foundation has also provided funds for meetings in Europe and other parts of the world on European efforts to establish a monetary system and on such special exchange rate regimes as the "crawling peg." The latter scheme, adopted by a number of smaller countries to date, permits exchange rates to adjust within certain limits in relation to other currencies.

The Princeton and other seminars were patterned in part after a series of Foundation-sponsored meetings, held in the 1960s and early 1970s, which brought together academic economists, central bank and government officials, and private bankers from the ten leading countries in international finance. These meetings were called the Bellagio (Italy) and Burgenstock (Switzerland) meetings after the names of the places in which some of them were held. Among the organizers were Professors Fritz Machlup, then at Princeton, and Robert Triffin and William Fellner of Yale.

Some academic economists had long favored flexible rates as a means of avoiding the special problems posed by the fixed exchange rate system adopted at Bretton Woods. As early as 1959, Robert Triffin had predicted that the Bretton Woods system was not viable in the long run because it would lead ultimately to an international dollar crisis. The meetings helped bring about a greater understanding of the technicalities of the international monetary system and dispel fear that flexible exchange rates would bring chaos to the foreign exchange market. They are often cited as a model for fruitful collaboration between the academic and policy-making communities.

World Trade

The most striking evidence of the growing interdependence of the international economy has been the growth of world trade over the past decades. Total merchandise exports from both developed and less-developed countries have risen by more than 7 per cent annually, more than twice the rate at which the world economy has grown. The United States, long considered one of the most self-contained economies in the world, saw its exports grow from about 5 per cent of total production in the early 1950s to more than 10 per cent by the late 1970s.

The greatest growth of trade has been among industrialized countries. According to Lincoln Gordon, in a study done for the Council on Foreign Relations, industrial-country trade accounted for 47 per cent of the total growth of exports between 1955 and 1975. The remainder was trade between industrial and developing countries or among developing countries.* Manufactures constituted about 60 per cent of the total growth, and primary products (raw materials) about 40 per cent.

According to economic theory, countries that engage in trade are better off than if they did not engage in such trade. The law of comparative advantage, developed more than a century ago by David Ricardo, John Stuart Mill, and other followers of Adam Smith, states that international trade may be mutually profitable even where one of the coun-

tries can produce every commodity more cheaply (in terms of labor or of all resources) than the other country. Thus, even if the United States can produce both food and clothing more efficiently than Europe (i.e., has an "absolute advantage" in both), it will pay for the U.S. to produce food, which she can produce comparatively more efficiently than clothing, and buy the clothing from Europe with the proceeds from the sale of the food. A corollary of the theory of comparative advantage is that a protective tariff or any device such as a quota to prevent imported goods from competing with goods produced in the receiving country will tend to reduce the efficiency inherent in each country specializing in the production of the goods in which it has a comparative advantage. Free trade is thus usually more efficient than restricted trade.

Although the world has been moving in the direction of less restricted trade, it has never had totally free trade, in part because nations are reluctant to permit the displacement of workers and factories that would follow if cheaper foreign-made goods entered their domestic markets. Although a nation may be better off as a whole under freer trade, people who have lost their jobs to foreign competition may be worse off. Thus any movement toward freer trade involves distributional effects and adjustment costs as the capital and labor displaced by foreign competition move to other industries.

These adjustment problems have become more pressing with the slowdown of economic growth in the industrialized nations in the 1970s. Before the turn of the decade the displacement of workers and capital by foreign competition was less of a problem

* *Growth Policies and the International Order* by Lincoln Gordon (McGraw-Hill, 1979). The study was part of the 1980s' Project of the Council on Foreign Relations, which looked at foreign policy issues facing the United States in the 1980s. The project has been supported by the Foundation.

because the rapid expansion of world demand allowed resources in declining industries to shift easily into expanding sectors. Since then, the pressure for trade restrictions has been rising throughout the industrialized world. The protectionist movement has been stimulated especially by the growing competition of goods—notably textiles, shoes, electronics, steel, and ships—manufactured by the rapidly industrializing developing countries. The notion has been growing in the developed world that the current level of trade liberalization may be excessive and may work to maintain or increase unemployment in the mature industrialized economies.

Research supported by the Foundation has been attempting to assess the size of the adjustment costs and redistributive effects in the United States and elsewhere of reduction of trade barriers. For example, a research team led by Robert E. Baldwin of the University of Wisconsin estimates that a 50 per cent tariff reduction by the major trading nations would result in a net stream of future benefits to the United States of more than a billion dollars. Although a significant number of workers would be displaced in some industries (for example, footwear and radio and TV manufacturing), there would be employment gains in other industries (aircraft, semiconductors, and computers) where U.S. exports would increase as a result of the tariff cuts. The Wisconsin research results were summarized in an article in the *American Economic Review*, journal of the American Economic Association, and were also used by American officials in the Tokyo Round of GATT negotiations on trade barriers.

At the University of Western Ontario, economist

John Whalley and a team of collaborators have constructed a computer model which simulates the trade and trade-distorting policies of three major traders, the United States, the European Economic Community, and Japan. The model is capable of examining not only the effects of various tariff-cutting proposals on the composition of international trade but of such other distorting practices as quotas and domestic taxation policy. For example, American trade negotiators have complained that the EEC's value added tax, which applies to goods imported into the community but is rebated on exports leaving Europe, unfairly discriminates against American goods entering Europe. Similar complaints have been made about Japan's commodity tax, which is charged on imports but not on exports. The Whalley model permits some persuasive estimates of the actual effects of these taxes.

The Whalley model is also capable of estimating the impact on trade of differences in the size of the public sector. As a share of GNP, government expenditures in Japan are about 60 to 70 per cent of those in the U.S. or the EEC. The resulting heavier tax burden raises costs for domestic industries in the latter and may make their goods less competitive than Japanese goods in international markets.

Another Foundation-supported research project has looked at the effects of international trade in U.S. agricultural commodities on income distribution in the United States. Lester Thurow of MIT, a leading student of income distribution in the U.S., found a strong shift of income from the poor to the rich as agricultural prices rise in world markets. Looking at the period from 1972 to 1974, when agricultural prices

rose 46 per cent, Thurow estimates that the richest fifth of U.S. farmers gained 81 per cent of the total income realized from the price increases, while the poorest fifth of U.S. consumers, because of higher food prices, suffered an 8 per cent loss of income. The higher export prices of U.S. farm products, however, produced a net gain for the economy; the income gains to farmers exceeded the income losses to consumers by 22 per cent.

Oil and the World Economy

Between 1973 and 1974 the Organization of Petroleum Exporting Countries increased the export price of oil from \$2.74 to \$10 a barrel, contributing to the onset of the worst recession since the 1930s. By the end of the decade world petroleum prices had risen more than tenfold, an increase of unprecedented proportions.

The sharp increase sent a series of shocks through the world economy, giving rise to fears that it might be headed for collapse. But the system proved remarkably resilient. The large transfer of funds from oil-importing to OPEC countries soon began coming back in payment for exports from the industrialized world and in the form of OPEC investments in the financial assets of the industrialized countries. The oil-importing less-developed countries were able to pay for their oil mainly by borrowing OPEC funds which had been deposited in the private banking systems of Europe and the United States.

The adjustment to higher oil prices brought considerable pain, however. According to a Foundation-supported Brookings Institution study, the first effect of the higher prices was to constrain consumer

purchasing power in Western Europe, Japan, and the United States.* Because only a small fraction of this drain was immediately offset by higher exports to oil-producing countries, employment and output fell sharply. Inflation, which was already accelerating before the oil crisis, was given a sharp boost. Economic authorities in virtually all the industrial countries adopted policies to restrain the inflationary forces with the consequence that the initial loss of employment and output became larger.

The crisis pointed up a serious weakness in the traditional tools of economic management in the industrial countries, said the Brookings study. Confronted with a simultaneously rising price level and shrinking aggregate demand, policy makers face a dilemma: If they try to maintain output and employment by tax cuts and easier monetary policy, the likely result is more inflation. On the other hand, if they concentrate on fighting inflation, demand will be reduced and output and employment will fall. To maintain both prosperity and price stability, the study recommended that some form of social compact was needed so that workers would accept a tax reduction as the equivalent of a wage increase.

Bad as the economic effects of higher oil prices were on the industrialized countries, they were worse on the oil-importing developing countries. The price rise added 13 per cent to the import bill of these countries. As a result, they were faced with growing pressure to reduce the imports they needed for economic expansion.

*Higher Oil Prices and the World Economy: The Adjustment Problem, the Brookings Institution 1975, Edward R. Fried and Charles L. Schultze, editors.

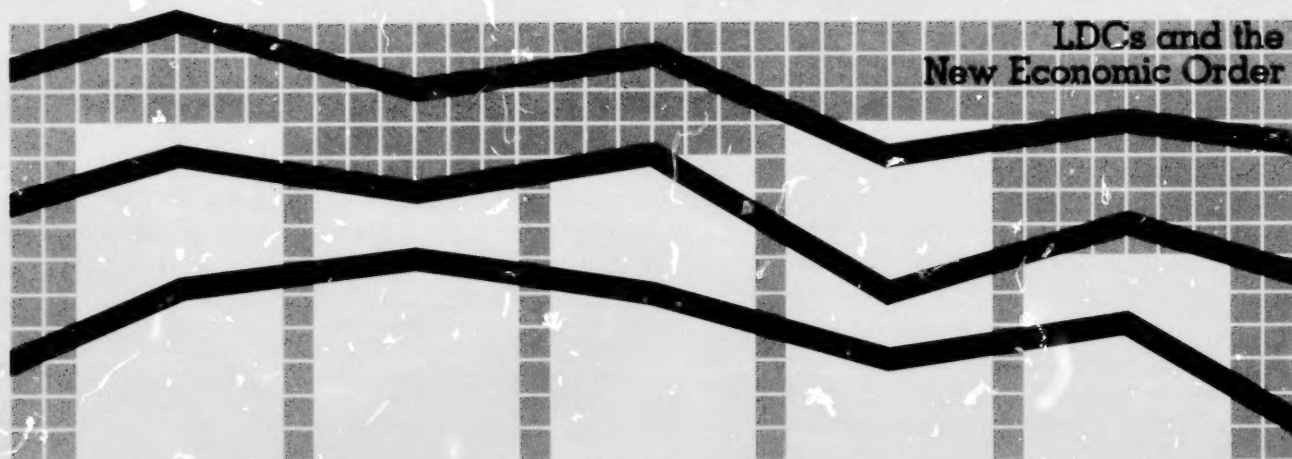
To some extent, the growing bill for the poor countries for oil imports was met from borrowings through the international capital markets. Tracing these financial flows from 1974 through 1978, a Foundation-supported study group pointed out that the cumulative earnings of the OPEC nations (from higher oil prices) were successfully recycled through the private banking system and governments of the industrialized countries to the LDCs, enabling them to sustain a high level of imports.*

Although the international economic system adjusted more smoothly to the oil shock than had been expected, it did so at a large cost in terms of higher inflation and lost output, the report noted. A substantial amount of economic slack as well as inflation persists in the industrialized world, and economic growth in the developing countries is at least one-fifth below trend. The volume of world trade has

grown on average by little more than 4 per cent a year, less than half the rate of the previous decade.

The report predicted that the world economy should not have too much difficulty in adjusting to gradual increases in the price of oil. But a large, rapid rise would be a different matter. For example, a quick doubling of the real price of oil would translate into a 4 point increase in the inflation rate. Such a rate will be magnified because workers will bid up wage rates as they try to evade the loss of real income inflicted by the oil price rise. Or alternatively, the government will try to use monetary and fiscal policy to create enough extra unemployment to discourage the wage response and prevent a rise in the permanent inflation rate. Either way, a further large, rapid increase in oil prices would impose an extra burden of inflation or unemployment on top of the direct cost of the higher price of oil.

**Energy: The Next Twenty Years*, report of a study group sponsored by the Ford Foundation and administered by Resources for the Future, Hans Landsberg, chairman, Ballinger Publishing Co., 1979.



The current distribution of economic power and wealth in the world has come under heavy attack in recent years from leaders of the world's poor nations. They claim that the international economic order works to their disadvantage by perpetuating their role as producers of primary or labor-intensive products, by not paying them enough for the raw materials they produce, and by draining off their best trained talent who might make more rapid economic progress in these nations possible. Unless the system is changed, they argue, poor countries will never be able to achieve the living standards of the rich.

Although Third World countries have registered respectable rates of economic growth over the post-war years, the gap that separates them from the rich countries is still immense. According to the World Bank, per capita GNP in the Northern tier of industrialized countries is about \$8,500, while in the poorest of the poor Southern countries—a group that con-

tains 1.1 billion of the world's 4 billion-plus people—it is \$200. Even in the advanced developing countries, a group that includes the OPEC nations, Brazil, Mexico, Taiwan, Korea, and others—about 40 per cent of the population has yet to emerge from poverty.

Many of the demands of the Third World countries for a new international economic order were voiced at special sessions of the United Nations General Assembly in the mid-1970s. They proposed that each state have full and permanent sovereignty over its natural resources and economic activities and the right to exercise authority over foreign investment and to nationalize foreign property.

Among the specific demands for a new international economic order were a greater transfer of resources from the rich to the poor countries, more stable and higher prices for commodities, greater access for manufactured goods in the markets of the

industrialized world, renegotiation of external debt, curbs on the activities of multinational corporations, greater access to the technology of the industrialized countries, and a greater voice in the management of the world's monetary and trade systems.

A number of analysts of these issues have pointed out that because of the growing interdependence of the world economy, the growth and prosperity of the developing countries are linked to a much larger degree than heretofore to the domestic economic goals of developed countries and vice versa. They argue that increased demand for goods and services in the poor countries could exert a powerful stimulus to global economic growth and help reduce inflation and unemployment in the industrialized countries.

A principal spokesman for this view is the Overseas Development Council in Washington, D.C., a private research and educational organization concerned with America's relations with developing countries (see page 39). ODC was established in 1967 and has received a substantial part of its support from the Ford Foundation.

In a paper titled "Can the Rich Prosper Without Progress by the Poor?" John W. Sewell, ODC president, has argued that the greatest reservoir of productive capacity in the world "is the still underdeveloped and underutilized human and physical resources of the developing countries. By raising the purchasing power among the people of these countries, releasing new resources, and developing new markets for both poor and rich, higher levels of economic activity can be created within and between all countries."

ODC has advanced the argument that because of

a series of changes in the world economy in the 1960s and 1970s, including higher prices for raw materials, high rates of inflation, and a slowdown in the growth of productivity and investment in the developed countries, previous rates of economic growth will not be attained again unless new policies and approaches are developed. Among the "mutually beneficial" reforms it has urged are reductions of trade barriers in both developed and developing countries, price stabilization agreements covering many raw materials, greater access to international credit and financing for the developing countries, and policies to spur increased investment in the production of food, energy, and raw materials in the developing countries.

In 1976 ODC, with support from the Ford and Rockefeller Foundations, undertook a special study of the demands of the LDCs for a new international economic order. Papers were commissioned on such topics as international commodity agreements, the external debt problems of non-oil-producing developing countries, grain reserves and food aid, and world market imperfections.* It also conducted briefings and seminars on these and other topics for journalists and government specialists.

*The papers have been published as *Policy Alternatives for a New International Economic Order*, edited by William R. Cline of the Brookings Institution. Another volume addressing many of these same issues, this one resulting from a Foundation-supported conference of specialists at the Massachusetts Institute of Technology in 1976, was published in 1977 under the title *The New International Economic Order: The North-South Debate*, edited by Jagdish N. Bhagwati of MIT. The two volumes examine and evaluate most of the arguments that have been generated in the North-South debate.

In 1979 the International Commission on International Development Issues, an eighteen-member group of world leaders headed by Willy Brandt, the former West German chancellor, made a comprehensive examination of North-South economic relations. Supported in part by a Ford Foundation grant, the commission noted in its report that North and South were inextricably linked by \$500 billion a year in trade between them, \$300 billion owed by the South, and \$80 billion invested by the North's multinational companies in the South. These links have come under increasing strain with stagflation and accompanying efforts to restrict world trade and capital transfers.

The commission's most far-reaching recommendation was for a system of automatic transfers of funds from North to South, supported by levies on world trade, airline tickets, and wealth extracted from the seabeds. It noted that long-term development of the South was hampered by the fact that the financial flows between North and South were in large part in the North's direction and that official aid was less than half that pledged by the rich countries in 1970. The commission also called for an end to efforts to stop the North's traditional industries from migrating South, noting that the ability of the LDCs to make some goods more cheaply will result in greater worldwide demand for all goods and services. It also called for the reform of the World Bank, the International Monetary Fund, and other international institutions in order to channel more resources to the South.

Another organization that has received Foundation support to analyze and debate the arguments

for a more equitable distribution of the world's resources is the Interreligious Peace Colloquium (since renamed the Muslim Jewish Christian Conference), which was founded in 1976 to bring together representatives of the world's major faiths to discuss world economic and political issues. The group has sponsored meetings of leaders of the world's Jewish, Christian, and Muslim faiths on the role religions can play in resolving such issues as the world food crisis, economic injustice, the preservation of human rights, and the maintenance of peace.* IPC has encouraged students to explore religious approaches to world problems and has also taken steps to increase the amount of information on Islam available to American readers.

Special Studies, Conferences

The debt problems of oil-importing developing countries have caused increasing concern in the wake of the huge increases in oil prices since 1973. Prior to 1973 the amount owed by the developing countries was not considered troublesome, since many of them were able to pay their debts with receipts from their growing exports and worldwide inflation tended to reduce the real burden. After the oil price increase, however, the debt of the non-oil countries grew by more than half, to \$200 billion, and at substantially higher interest rates. Fears grew that some countries might not be able to repay the loans.

Several scholars have received Foundation grants

*Two books have resulted from IPC-sponsored conferences—*Food-Energy and the Major Faiths*, presented by Joseph Gremillion, and *World Faiths and the New World Order*, edited by Joseph Gremillion and William Ryan.

to examine these problems. In a study conducted for the Overseas Development Council, Gordon W. Smith of Rice University argued that the debt of the non-oil developing countries is not insupportably large, when inflation and export growth are taken into account. For the longer term, however, he concluded there was a danger that the private banks, which have provided much of the capital, would not be able to sustain the lending and that sluggish growth in the industrialized countries might cut into the export earnings of the developing countries and thus magnify the debt-service problem.

Some of the changes that have occurred in the world economy in recent years have been welcomed by Third World economists. Edmar Bacha of the Catholic University of Rio de Janeiro, for example, in a paper presented to a Foundation-supported conference of Latin American economists in Chile, points out that the inflow of private investment capital has increased for some LDCs, particularly those that are industrializing rapidly, from the Eurocurrency markets, swollen by the balance-of-payments surpluses of the oil-producing countries. This expansion of commercial lending has made the LDCs less dependent upon bilateral and multilateral public aid and has helped them expand their domestic growth and trade with each other. He argues that the more the LDCs are able to de-emphasize the links of their economies to the industrialized North through exports, the better off they will be.

Because there are still relatively few Third World experts who are able to deal effectively with international economic policy issues, the Foundation has supported training, research, and other scholarly

activities in a number of countries. The aim is to help strengthen the capacity of these countries' policy makers to manage their international economic relations to their own advantage. International discussions and negotiations over such problems as oil prices, food policies, commodity arrangements, and new monetary and financial institutions take place regularly, placing heavy demands on the small number of persons in the Third World who are familiar with these issues.

Grants have gone for training and workshops at the University of the Philippines and at Thammasat University in Thailand, for the creation of a research unit on the world economy as it pertains to Southeast Asia at the Institute of Southeast Asian Studies in Singapore, and for dissertation awards to enable Asian students to complete doctoral studies in international economics at Western universities. In Latin America, awards have been made among others to the Latin American Institute for the Study of Transnationals in Mexico City, and to universities in Rio de Janeiro and Lima for training and research on international political economy.

Scholarly workshops have been supported by the Foundation to improve the understanding of Third World representatives about international economic issues. For example, sessions have been held in Brazil on exchange rate regimes for small countries, in Barbados on the developing countries and the international financial system, and in New Delhi on international trade issues. The sessions have been attended not only by academic economists but also by governmental and central bank officials engaged in the management of their economies.

To advance the science of economics and improve communication among economists around the world, the International Economic Association holds working conferences and large international congresses on such themes as microeconomic foundations of macroeconomics (Spain, 1975), economic growth and resources (Tokyo, 1977), the relevance of contemporary economic theory to present-day society (Warsaw, 1978), and public versus private enterprise (Mexico, 1980). The congresses and conferences are attended by economists from the Western, developing, and socialist countries. Papers prepared for the meetings are later published. The Foundation has granted the association some \$1 million since 1954 for support of these activities.

Advanced Developing Countries (ADCs)

Other Foundation-supported projects have examined the implications for the developed world of the growing industrialization of the less-developed regions of the world. These nations have been increasing their economic strength relative to the rest of the world. From 1967 to 1973, seventeen of the ADCs (in East Asia, Southeast Asia, and Latin America) had higher growth rates than the average of all the industrialized countries, although the higher level of GNP in the industrialized countries meant that, even with a lower growth rate, the absolute gap between them and the ADCs was increasing. Since 1973, economic growth in the industrialized nations has slowed down and the ADCs have begun closing the gap in absolute GNP as well.

Rapid industrialization is an almost universal goal of the less-developed nations. According to Louis

Turner and James Bedore of the Royal Institute of International Affairs in London, the essential difference between the rich and poor nations is symbolized by the difference between the price of an ounce of raw cocoa in West Africa and the selling price of a Hershey bar in New York. The poor nations receive the fluctuating price of the raw commodity, while the rich countries receive the value added by transporting, manufacturing, and packaging the commodity into the end product, along with all the jobs and industries created—from shipbuilding and wax paper manufacturing to advertising.

The most dramatic example of the movement of industry toward the countries that produce the raw materials is in the Middle East and North Africa, where Saudi Arabia, Iran, Libya, and other countries are making a major effort to produce and export refined petroleum products and petrochemicals. The raw materials are the huge oil and natural gas resources in the region, and the products the countries intend to produce are used in the manufacture of synthetic fibers, fertilizers, plastics, rubber, pharmaceuticals, and many other items.

Turner and Bedore, who received a Foundation grant to examine this development, found that while there was apparent reason for placing petroleum processing and petrochemical plants in the Middle East (much of the natural gas from the oil fields is now flared for want of anything better to do with it), the economic rationale was less certain. A considerable overcapacity in the world's petrochemical and refining industries, and relative high construction and operating costs of the Middle East plants, make uncertain the profitability of such ventures at least for

the next few years. The researchers argue, however, that the advanced nations might well encourage Middle Eastern industrialization for political rather than economic reasons. Among the reasons they cite are the need to assure adequate supplies of oil products for their own consumption as well as the need to recycle the oil income of the oil producers into ventures that result in jobs and profits for firms from the advanced countries.

Researchers at the Brookings Institution are looking at the growth of the ADCs with support from the Foundation. Directed by Lawrence Krause, a project is examining such questions as how to ameliorate the adjustment problems faced by the advanced economies because of continued rapid growth and whether new international institutions will be needed to improve economic cooperation between the developed world and the ADCs. American opponents of trade with the ADCs, according to Krause, seldom mention the consumer gains and anti-inflationary benefits derived by the U.S. from imports, or that the ADCs are absorbing an increasing share of American exports of agricultural products, machinery, transportation equipment, and high-technology goods and services.

Economic Forecasts

The demands of the LDCs for a greater share of the world's wealth, coupled with the recent economic disturbances of the industrialized world, have stimulated a renewed interest in long-term economic forecasting. Mathematical models of the world economy have been elaborated which attempt to predict gross world output, income, trade, and other indices

over varying time horizons. In the early seventies, the Club of Rome, a group of American and European economists, for example, came up with highly pessimistic projections of world economic collapse because of overpopulation and resource exhaustion. On the rosy side are futurist Herman Kahn's projections that more than two-thirds of the world's population will have substantially increased their incomes by the year 2000.

The Organization for Economic Cooperation and Development (OECD), a multilateral organization in Paris supported mainly by the governments of the Western industrialized nations, in 1977 undertook a major study to survey the current state of economic forecasting and to evaluate the direction the world is moving in population, food, the physical environment, energy, raw materials, location of industry, financial and monetary problems, and the structure of world trade. The project was titled "The Future Development of the Advanced Industrial Societies in Harmony with that of Developing Countries" (INTER-FUTURES). A Foundation grant supported the project's research on the long-term growth patterns and development strategies of the LDCs.

Issuing its report in mid-1979, the OECD researchers predicted that the United States and its Western allies will see their economic weight decline during the remainder of the century because of sluggish growth and the emergence of prosperous new industries in many poorer countries. The newly industrialized countries, including China, will have doubled their share of world industrial production from 12 to nearly 25 per cent. The Far East, the report predicted, will have emerged as one of the most

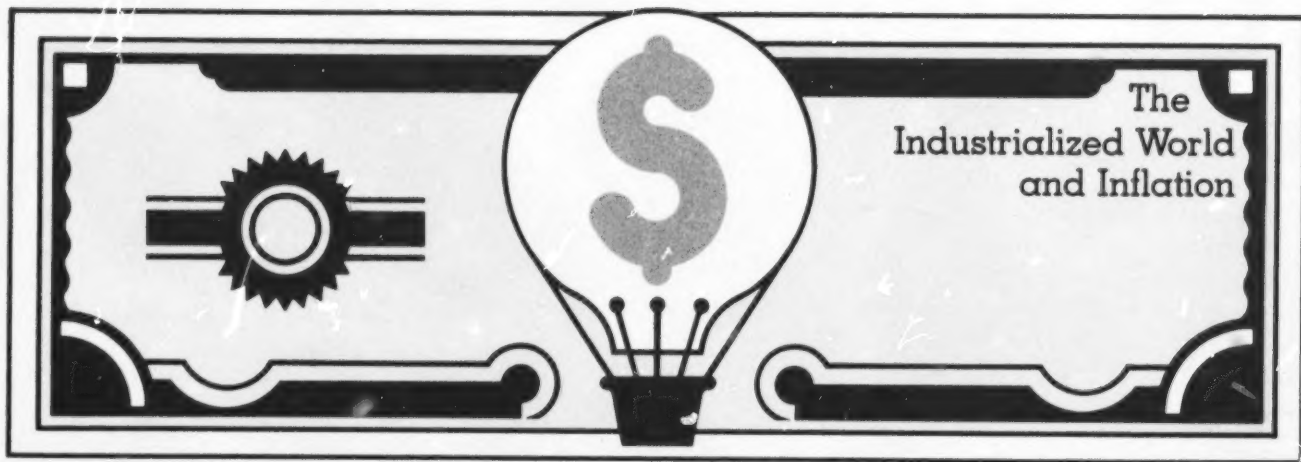
important centers of the world economy, together with the fast-developing oil-exporting countries and the economically more successful Latin American countries. Little improvement was foreseen, however, in the lot of the poorest countries in Africa and Asia, with per capita income going no higher than \$300 (in 1979 dollars) by the year 2000.

Wassily Leontief, winner of the Nobel Prize for economics for his pioneering work on input-output analysis, has also elaborated a model of the world economy with assistance from the Foundation. He predicts that per capita income, even under conservative assumptions, will probably be nearly twice as high in real terms in the year 2000 as it was in 1970.* The input-output technique which he used for his

work gives a detailed quantitative picture of the structure of the international economic system, showing what each major industry buys from and sells to other industries.

Leontief, who did much of his original work at Harvard University and is now associated with New York University, was pessimistic, however, about the ability of the non-oil-producing less-developed countries to close the gap with the rich countries. To accelerate economic growth in the less-developed world, he called for the transfer of substantially increased amounts of aid, technology, and technical assistance from developed and oil-exporting countries, as well as for broad political, social, and institutional changes in the LDCs.

**The Future of the World Economy: A United Nations Study* by Wassily Leontief, et al., Oxford University Press, New York, 1977.



The most worrisome economic problem in recent years for many of the world's industrialized countries (and for most of the less-developed as well) has been inflation. In some nations, including the United States, it has been accompanied by low rates of economic growth and higher than normal rates of unemployment.

For the years 1967 through 1978, the U.S. inflation rate averaged 6.1 per cent a year, compared with an average of 2 per cent for the years 1952 through 1967. Even during the 1973-74 recession, unlike most previous recessions, the inflation rate continued at a relatively high rate. In the late 1970s inflation speeded up again, reaching unprecedented levels.

Inflation would not be so bad, in the opinion of some economists, if it were accompanied by substantial increases in output and employment. But economic growth in the United States slowed during the high-inflation 1970s, bringing on a condition that

economists describe as "stagflation." Another measure of economic health—productivity, or output per worker—also slowed dramatically in recent years throughout the industrialized world, and in the United States and Great Britain for a time failed to increase at all. For the United States, a country long accustomed to ever-increasing material wealth, the fall-off in economic growth and the constantly eroding value of the dollar were traumatic developments. If the trends continued, the average American could no longer anticipate a constantly rising standard of living.

"Too many dollars chasing too few goods" is the traditional economic explanation of inflation. The two main schools of modern economic theory—the followers of John Maynard Keynes, on the one hand, and the monetarists, led by Milton Friedman, on the other—are in substantial agreement on this definition of inflation. In the Keynesian system, inflation

occurs when the total demand of consumption, investment, and government expenditures exceeds the value of what the economy can produce at or near full employment. The monetarists agree on this "demand-pull" definition of inflation: too much money bidding against a limited supply of goods at full employment.

Where the monetarists and Keynesians part company, however, is on how to control inflation. The monetarists assert that to control inflation, prevent recession, and sustain economic growth, primary attention must be paid to the money supply. Modern interpreters of Keynes, however, argue that while the control of money is important in economic management, it is not the most effective lever available. They claim that fiscal policy (spending and tax policy) is also important, and that inflation can best be constrained by a mix of monetary and fiscal policies and perhaps by use in the short run of incomes policy (restraints on wages and prices).*

Many economists now believe that the chronic inflation of the 1970s is a different phenomenon from that described in the "demand-pull" model and thus

cannot be treated with the old prescriptions. They believe that inflation is activated by "cost-push" factors—prices and wages that begin to creep up before full employment and full industrial capacity are reached. The economist most prominently identified with this point of view was the late Arthur Okun of the Brookings Institution, who was chairman of the Council of Economic Advisers in the administration of President Lyndon Johnson. According to Okun, most of the U.S. economy is dominated by what he termed cost-oriented prices and equity-oriented wages. Most prices are set by sellers so that they exceed costs by a percentage markup that displays little change over the business cycle. Similarly, wages do not go down when unemployment goes up because most employers want to hold on to their skilled workers. They know that if they cut wages during a slump, workers would quit for other employment during the next period of prosperity. In most work situations wages reflect what other workers in similar situations are earning and not the demand for labor in the marketplace.

Economists are able to agree more on what will not cure inflation than on what will. Government-administered wage and price controls, which have been tried a few times in the United States and more frequently elsewhere, are viewed with suspicion because they have seldom been effective and may produce more inequities than exist under creeping inflation. Some economists condemn sole reliance on Keynesian fiscal-monetary restraint on grounds that the beneficial impact on inflation is small while the unfavorable impact on employment, production, and capital investment is great.

*An integration of the fiscalist and monetarist approaches to these questions is the objective of research conducted by Don Patinkin, a U.S. born economist at the Hebrew University of Jerusalem, with Foundation support. Trained in the monetarist tradition, at the University of Chicago, Patinkin is re-examining Keynes' economics in the light of the existence of simultaneous unemployment and inflation in the industrialized economies. He is tracing the historic development of Keynes' *General Theory* and other writings of the British economist that have recently been republished in a twenty-five-volume edition in Great Britain.

TIP and Other Proposals

One new set of anti-inflation proposals advanced in recent years is known as tax-based incomes policies (TIP). TIP would impose a penalty tax on employers who grant wage increases above some certain level or reward employers with a tax benefit if they hold wages below the target. Direct government action to reduce prices would include a rollback in social security taxes, elimination of federal excise taxes, the use of federal grants to encourage states to reduce taxes, reform of environmental and health and safety regulations to reduce their cost burdens, and other measures.*

The TIP proposals have been greeted with considerable skepticism by business and labor leaders who see important similarities between them and direct wage and price controls. They also have been attacked on grounds that they would add to the burdens of an already overly complex tax system and would prevent the correction of wage inequities among industries.

During the 1971-74 period the government did impose direct wage and price controls to curb inflation but with disappointing results. In an evaluation of this experience conducted for the American Enterprise Institute for Public Policy Research with Foundation support, Marvin Kusters concluded the controls never had much impact on the rate of inflation.** A former official of the government's Cost

of Living Council, Kusters attributed the council's ineffectiveness in part to bad luck, e.g., the oil embargo and droughts and bad harvests that sent food prices skyrocketing, and in part to the inherent difficulties of any control system.

The ineffectiveness of controls, according to Kusters, can be illustrated by the ceiling put on meat in early 1973. Meat producers held back animals from the market, and some livestock producers were caught between the price ceilings and sharply higher feed costs. Farmer protests finally forced the removal of the controls.

The Transmission Process

Like other economic disturbances, inflation is influenced by forces emanating from the international economy. Economists have identified at least a half dozen mechanisms by which inflation or recession is transmitted across national boundaries, among them the effect of foreign expenditures on domestic exports, domestic demand for imports, and the effect of foreign interest rates on domestic rates and capital movements. Flexible exchange rates, although they were supposed to protect domestic economies from outside disturbances, may also be inflationary.

A number of economists who have received support from the Foundation have attempted to trace the process by which disturbances are transmitted across national boundaries. For example, Stanley

*TIP and the other proposals, and their likely impact, are discussed in *Curing Chronic Inflation*, a series of papers prepared for a Foundation-supported conference convened by the Brookings Institution in the spring of 1978 under the leadership of Arthur Okun and George L. Perry.

**The American Enterprise Institute is a private nonpartisan research institution in Washington, D.C., that analyzes and holds forums on important domestic and foreign policy issues facing the United States. In 1972 the Foundation granted AEI \$300,000 to help expand its activities.

Black, professor of economics at Vanderbilt University, is examining the role of domestic macroeconomic policy in dampening or reinforcing the international transmission of economic disturbances. An exchange rate pegged to some other currency, he says, transmits more foreign inflation than a floating currency. Black also argues that the political and economic environment of individual countries has a large effect on inflation and unemployment; for example, Germany, because of its bad experience with inflation in the 1920s, has a much lower tolerance for inflation than does Great Britain and therefore follows policies to contain it.

At the University of Michigan, Gardner Ackley, a former chairman of the Council of Economic Advisers, received Foundation support for a comparative study of anti-inflation and anti-recession policies in some eight countries during the volatile period from 1972 to 1976. The hypothesis of the study is that any single country's price level is substantially influenced by international forces transmitted through its trade, investment, and monetary relations with other national economies. Ackley is comparing countries that relied mainly upon normal market processes to promote price stability with those that pursued the same objective with price controls and incomes policies.

Two European researchers, Alexander Swoboda, and Hans Genberg of the Graduate Institute of International Studies in Geneva, have analyzed the tendency of inflation rates in industrial countries to move in harmony. Looking at ten industrialized countries from the 1950s through the early 1970s, they found that after the Korean war both world money

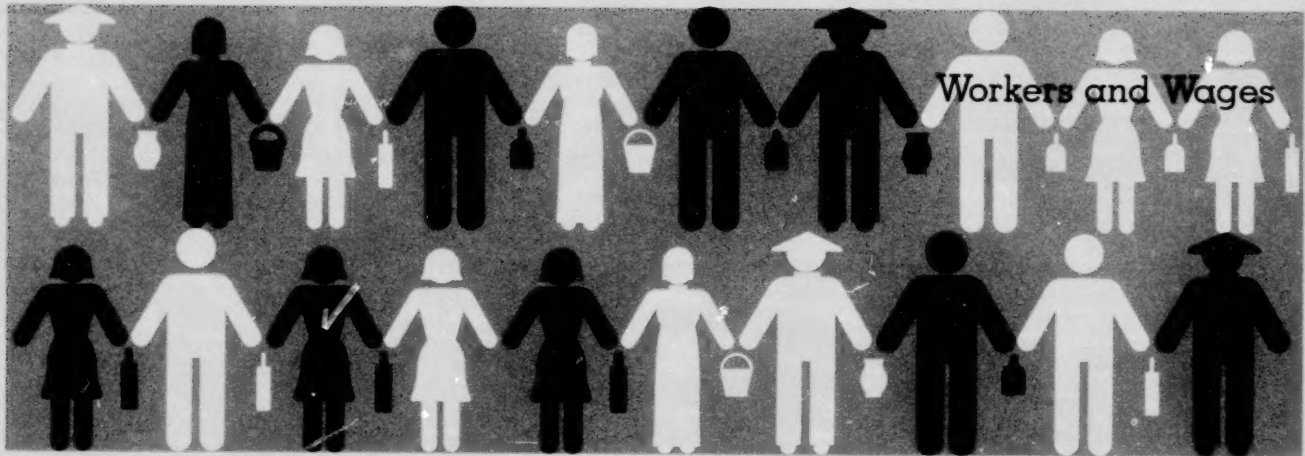
supply and inflation in all these countries grew by about 2.3 per cent a year until the late 1960s, when both indices rose sharply. This sharp increase coincided with the expansion of the U.S. money supply to finance the Vietnam war without an offsetting tax increase.

Swoboda and Genberg argue that this tendency of inflation rates in the industrialized economies to move together is a consequence of the close integration of capital markets and of markets for goods and services. Monetary expansion in one country will tend to spread quickly to other countries and add fuel to whatever inflationary fires exist there. U.S. monetary policy has a greater effect on world inflation than that of other countries, both because of the larger size of the U.S. economy and because its currency is used for international reserves. Because European central banks hold such large quantities of U.S. dollar assets, whenever the U.S. Federal Reserve expands the U.S. money supply, some of these new dollars end up in European accounts. The gain in European dollar reserves amplifies the worldwide impact of the Federal Reserve's expansion. The total world money supply thus becomes greater than if the expansion originated with the European banks.

With the introduction of flexible exchange rates in the early 1970s, inflation rates in the industrialized countries have tended to diverge. But the experience of the 1970s would indicate that flexible rates have tended to fuel inflation in some countries, including the United States. Rudiger Dornbusch of MIT has analyzed this question and concluded that flexible rates have not only had an inflationary impact upon

the United States but have helped change the historic tradeoff between inflation and unemployment. According to his analysis, when the United States seeks to stimulate the economy through monetary and fiscal policy, the first result is a depreciation of the exchange rate, thereby raising import prices. Higher import prices push up the domestic

inflation rate. Flexible rates thus accelerate the inflationary impact of expansionary policies even when there is considerable slack in the economy. Dornbusch estimates that a 10 per cent increase in import prices brought about by exchange rate depreciation raises domestic prices over time by 3 per cent, a substantial impact.



Since the Keynesian revolution in economic thinking in the 1930s, Western governments have stressed the use of fiscal policies (mainly increased government spending and tax cuts) to reduce unemployment and stimulate economic growth. While these policies may increase total employment, they may not achieve full employment, or price stability, or raise the income of the disadvantaged. Even with high employment, millions of low-skilled adults and teenagers are unemployed for extended periods, or are discouraged from entering the labor market because of a lack of attractive jobs.

Some economists have attributed the failure of the traditional Keynesian policy instruments to structural changes that have occurred in the labor market. According to one widely held theory, the rigidity of wages is to blame. If wages were to fall in times of recession or slack demand, that would encourage employers to substitute labor for capital. Overall

employment would increase and the economy would return to a satisfactory growth path. But the opposite happens. Even during recessions wages stay relatively stable and unemployment increases. In the language of economists, wages are "sticky" downward.

To explain why wages behave in this manner, a number of younger economists in the Cambridge, Mass., area have been developing a dual labor market hypothesis. According to Michael J. Piore of the Massachusetts Institute of Technology, one of the theory's principal proponents, the labor market is divided into primary and secondary sectors. In the primary sector (mainly professional, managerial, administrative, and craft jobs), employment is long-term and wages are relatively fixed. In the secondary sector, jobs tend to be menial and low-paying, offer little opportunity for advancement, and are generally held by the poorest ethnic and racial minorities

and by groups with a marginal commitment to the labor force, such as housewives and youth. The bulk of unemployment is associated with movement in and out of the labor market by workers in the secondary sector. However, prices do not fall during times of slack demand because they are influenced by the wages paid in the primary sector, which are fixed.

Piore and his colleagues believe that many of our current economic woes, including persistent high rates of inflation and unemployment and the falloff in capital investment and productivity, may be attributable to the tendency in recent years for economic expansion to tilt disproportionately toward the secondary sector. In the late 1960s and 1970s employers did not meet demands for increased output by expanding productive facilities and hiring permanent employees. Rather, they relied on greater utilization of existing equipment, on labor-intensive methods of production, and on employment of workers who can be quickly let go when business turns slack.

Piore believes that expansion has tilted this way because of increased economic uncertainty—brought about first by the Vietnam war and then by the energy crisis and the unprecedented inflation that followed these events. He therefore argues for economic and regulatory policies that would make for greater economic certainty. For example, it is not inflation per se that discourages investment, but the uncertainty about the future rate of inflation. By the same token, it is not the content of a particular energy policy that aggravates uncertainty but the failure to agree on any policy at all.

Piore and his colleagues also challenge the Phillips Curve hypothesis* that there is an inverse relationship between the rate of inflation and rate of unemployment, i.e., a high rate of inflation is associated with a low level of unemployment and, conversely, a high rate of unemployment is associated with a low rate of inflation. They question whether this relationship is meaningful because it is based on a labor market theory in which wages are determined by the interaction of supply and demand. They argue that inflation might be better controlled not by efforts to slow the overall economy but by incomes policies, i.e., through pressure, persuasion, and, if necessary, controls exerted by government to hold down wages.

The work of Piore and the Cambridge group has been supported in part by a Foundation grant to the National Committee for Full Employment, a private organization interested in promoting employment through such techniques as direct job creation, tax incentives to industries to hire and train unskilled workers, retraining programs for workers stranded by migrating industries, and income supplements for underpaid workers.**

Women at Work

According to Eli Ginzberg, labor economist at Columbia University and chairman of the National

*Named after the late Professor A.W. Phillips of the London School of Economics and Australian National University.

**See *Unemployment and Inflation: Institutional and Structural Views*, edited by Michael J. Piore, 1979 (M.E. Sharpe, White Plains, N.Y.), papers prepared for a series of seminars conducted by the National Committee for Full Employment.

Commission on Manpower Policy, the "single most outstanding phenomenon in our century"—more important in some ways than the development of the automobile or nuclear power—is the huge increase in the participation of women in the labor force.

More than 40 million women—over half of the female population above age sixteen and more than 40 per cent of the total work force—currently work for pay, according to the Urban Institute, a Foundation-supported private research organization in Washington, D.C., that has been tracking this movement. At the turn of the century only 5 million of 28 million working Americans were women.

By far the largest upsurge in women's employment came in the years following World War II. In 1947 fewer than 17 million of the 59 million participants in the labor force were women. By 1990 the figure should be around 52 million (out of possibly 122 million workers), according to Urban Institute estimates. The phenomenon has made the two-paycheck family common in American society and has had a number of social effects that social scientists are only beginning to evaluate. Many economists agree that the rush of women into the job market helps explain why the unemployment rate has become stuck in the United States at a relatively high level. Ralph Smith of the Urban Institute, an authority on women's labor force participation, says there are at least two reasons why this is so: women customarily have a higher unemployment rate than men, which pushes up the aggregate total; and the growth of the economy has been too sluggish to absorb the large increase in labor supply resulting from women's increased participation.

Why have so many women entered the labor force? One explanation offered by economists is that as the economy has expanded throughout this century, wages have increased rapidly. But there has been no increase in the rewards of working within the home. Thus the "opportunity cost" of staying at home compared to the benefits of working has become too great for an increasing proportion of women. Other frequently cited reasons for the increase in working women are the growth in the kinds of jobs for which employers hire women and the higher educational levels attained by women, which qualify them for a wider variety of jobs.*

To what extent has the expansion of female employment been at the expense of male workers? Economists give a mixed answer to this question. They believe there has been some competition at the margin for certain types of jobs—for example, in retail sales and manufacturing—between white women and black men, and there may be some further competition between mature women re-entering the labor force and youth looking for their first jobs. On the other hand, the labor force is so structured that many people do not compete with each other at all. Women, moreover, are earning money and therefore creating jobs as well as taking them.

*These and other issues concerning the growing numbers of working women are examined in *The Subtle Revolution: Women at Work*, Ralph Smith, editor, published by the Urban Institute, Washington, D.C., in 1979. In 1975 the institute, which studies the problems of the nation's cities, launched a research program on the changing social and economic status of women with support from the Foundation and other funders. The institute's overall research program is also supported by the Foundation.

Minority Youth Unemployment

No problem regarding the labor force has been of greater concern to policy makers in recent years than the high levels of unemployment among black and other minority youth in the nation's cities. According to a survey by the U.S. Labor Department in 1979, joblessness among 16- to 21-year-old black youth was 38.8 per cent, compared to 19.3 per cent for youth as a whole. During the past three decades the black youth unemployment rate has risen sharply relative to other workers.

Surveys have shown that black and Hispanic youth are consigned to lower-wage, lower-skilled jobs than whites. They must travel longer distances to reach their jobs and derive less satisfaction from them. They tend to be laid off much more frequently than their white counterparts.

In the summer of 1978 Joseph Cooper, a young Harvard University graduate, interviewed seventy-five black youths living in Boston's Roxbury section for the National Bureau of Economic Research. Contrary to much conventional wisdom, Cooper found that the youngsters wanted full-time jobs and 80 per cent of them said they had searched unsuccessfully for work during the preceding four weeks. Sixty per cent reported they had difficulty in understanding written job applications. The little income the youths had available to them was generated by part-time work and criminal activity. Most of them (75 per cent) reported that "hanging out" and getting "high" on marijuana were their dominant daily activities.

A number of activities, from research to action, have been supported by the Ford Foundation to help inform policy makers on how to deal with minority

youth unemployment. For example, the Foundation assisted a five-year demonstration of the supported work concept, in which individuals with severe employment problems, such as out-of-school youth and young mothers on welfare, are provided with a structured work experience to help them move into the regular labor force. Although the program worked well for some of the groups, including welfare mothers and former drug addicts, it did not serve out-of-school youth well.* A follow-up study found that many youngsters find it difficult to decide what kind of work they want to do; they tend to seek short-term job experiences, and they quickly tire of the discipline and routine of work.

The Foundation also sponsored a series of seminars that resulted in the formation of the Ad Hoc Committee on Youth Employment Research, made up of representatives of the federal government and foundations, to discuss possible new research activities in the field. Two major multi-city studies have been funded as a result of this initiative, one under the direction of William Kornblum of the City University of New York and supported by the U.S. Department of Labor, and the other directed by Richard Freeman of Harvard University and the National Bureau of Economic Research and funded by the Ford Foundation, the Rockefeller Foundation, and the Edna McConnell Clark Foundation. The Kornblum study is gathering more precise information on

*The findings of the supported work experiment are summarized in *Summary and Findings of the National Supported Work Demonstration* by the Board of Directors, Manpower Demonstration Research Corporation, Ballinger Publishing Co., Cambridge, Mass., 1980.

the life styles of unemployed inner-city youth, while the Freeman study is focusing on the variety of factors, including attitudes of the youth and employers, family characteristics, job-seeking and work experience, skills, and sources of personal funds, that may help explain the high unemployment and low labor-force participation of minority youth. Both studies are expected to be useful in the design of new public policy initiatives on behalf of disadvantaged youth.

The Foundation has also provided support for the National Council on Employment Policy, a nonprofit group of labor economists and employment experts, which issues policy statements on critical employment issues; and the Center for Social Policy Studies at George Washington University, which is headed by Sar A. Levitan, one of the nation's foremost evaluators of public policy efforts to meet the needs of the disadvantaged and unemployed.

Members of the National Council on Employment Policy have included George Schultz, John Dunlop, Juanita Kreps, and Ray Marshall, all of them academic economists who have occupied high government posts. Policy statements of the council have tended to support the position that unemployment is a structural phenomenon and that conventional measures such as fiscal stimulus will not reduce it significantly. It has recommended expanded public service employment, job-training programs, and other activities as means of curing unemployment.

Dr. Levitan and his colleagues at George Washington University have examined such subjects as shorter hours and a shorter work week as ways of spreading employment, the military as an employer,

and the successes and failures of the 1960s anti-poverty programs.

Levitan strongly defends the minimum wage, which has often been attacked as one of the causes of youth unemployment. According to critics, if there were no floor on wages employers would be willing to hire more workers. Levitan argues that while the minimum wage does produce some job losses, it has helped reduce destitution among many American workers and overall has benefited the national economy by putting more money into the hands of workers. He attributes high youth unemployment to other factors such as the general level of business conditions, population migration, the influx of undocumented aliens, the extension of the welfare state, and the growing number of working women.

The effects of such groups as the National Council on Employment Policy and the Center of Social Policy Studies are always hard to evaluate, but there is considerable evidence that they have had a considerable impact on public policy. For example, some of the youth employment programs developed in the late 1970s grew out of earlier analyses conducted by Dr. Levitan and his associates. Dr. Levitan was also primarily responsible for the establishment of the trigger mechanism in the Comprehensive Employment and Training Act, enacted by Congress in 1973. Under this provision, when employment passes the 4 per cent mark, the federal government must create jobs for 20 per cent of the unemployed over the 4 per cent.

Unemployment in the LDCs

As worrisome as joblessness is in the advanced

countries, it is a disastrous problem in the less-developed world. In 1974 the Foundation asked Edgar O. Edwards, a Rice University economist then on the staff of the Foundation, and other analysts to look into this problem and suggest remedies for dealing with it.

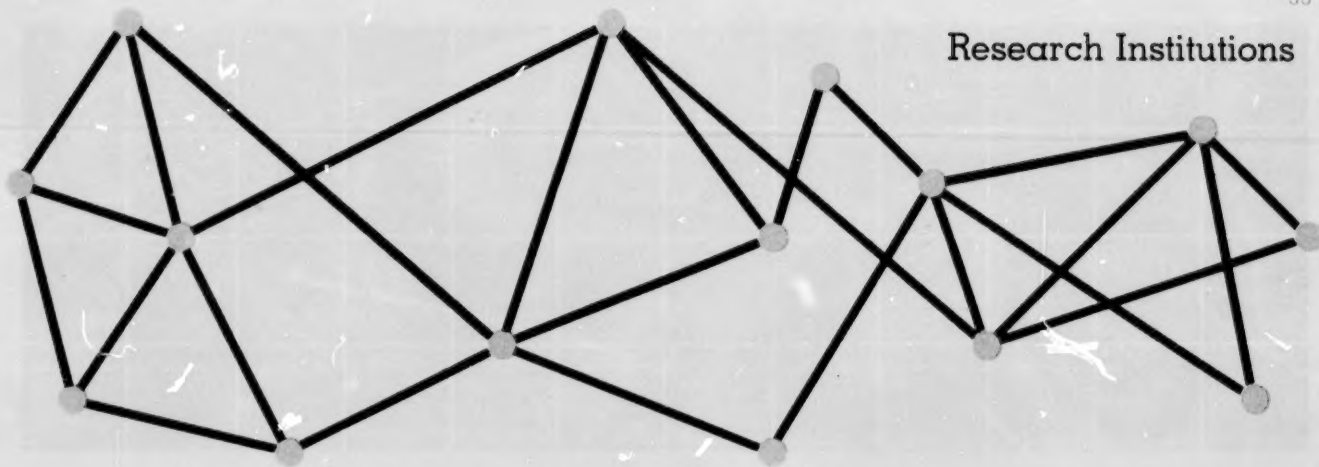
Their report, *Employment in the Developing Countries* (Columbia University Press, 1974), found that labor forces in developing countries were growing at twice the rate of those in the advanced countries and should double over the next thirty years. Moreover, the policies of developing countries frequently aggravated the problem—for example, by the introduction of technology designed for advanced economies that created few job opportunities and the failure to disperse new capital to rural areas where employment needs are greatest.

The report urged developing countries to increase job opportunities by favoring production of more labor-intensive products, by diffusing economic ac-

tivity to the countryside, and by considering such mechanisms as subsidies to employers to hire more workers. Advanced countries can help by gradually eliminating their own inefficient, labor-intensive industries and opening their markets for products that the LDCs can produce competitively.

Since publication of the report, an increasing number of developing countries have given more emphasis to rural development, on the theory that this will help absorb surplus labor in the countryside. Greater attention has also been given to the manufacture of labor-intensive products and to the importation of an intermediate level of technology appropriate to the conditions in these countries. Aid from the rich to the poor countries has not grown, however, (it is only half the .7 per cent of their gross national products agreed to by the advanced countries in 1970), and sluggish growth in the Western countries generally has limited the importation of goods from the poor countries.

Research Institutions



In addition to assisting the work of individual scholars and research projects on economic problems, the Ford Foundation has provided institutional support to a number of nongovernmental centers of economic research and education both here and abroad.* Principal among them are:

Brookings

Founded in 1916, the Brookings Institution in Washington, D.C. is one of the world's foremost social science research centers, conducting studies on economic problems, governmental affairs, and foreign policy. Since 1955 the Foundation has granted Brookings some \$40 million for institutional support, spe-

cial studies and research, and contributions to endowment.

Brookings maintains a staff of fifty senior researchers, many of them economists. Many of them have at one time served in high positions in the federal government. From 1967 until his death in 1977, Brookings was led by Kermit Gordon, a former member of the President's Council of Economic Advisers. He was succeeded by Bruce MacLaury, who had been president of the Federal Reserve Bank in Minneapolis.

Two of Brookings' most notable products are its *Papers on Economic Activity* in which its staff and invited economists analyze the puzzles of American economic performance, and *Setting National Priorities*, an annual publication that analyzes federal policy issues and the implications of the President's budget proposals. The latter series, initiated in 1970, has sold a quarter million copies and has had a

*The Foundation has also given support over many years to economic research centers, both private and governmental, in the less-developed countries. Since they deal mainly with economic problems specific to their own countries or regions, their activities are beyond the scope of this report.

significant effect on public understanding of the federal budget and its impact on economic and social policy.

In the 1980 version of *Setting National Priorities*, Brookings took a longer-range view of the nation's problems under such headings as economic policy, world economic interdependence, energy, medical care, education and training, defense policy, the Atlantic Alliance, North-South relations, and the crisis of competence in government. Among its recommendations were restraints on wage-price behavior, higher prices for energy, more business investment, and more efficient government regulation.

Brookings' economic studies program, its largest, is concerned with major problems of the domestic and world economy and with the search for effective public policy. Over the last decade the program has published more than 100 books on such topics as economic growth, inflation and unemployment, the economics of labor markets, taxation, and the economics of health care, education, and urban development.

One of Brookings' most influential projects was a series of studies, conducted from 1967 through 1975 with special funding from the Foundation, of governmental regulation of economic activity. The aim was to evaluate the impact of government in regulating such industries as airlines, electric utilities, freight transportation, shipping, television, and professional sports. For example, George Eads, then a graduate student at Yale and later to become a member of the Council of Economic Advisers, with specific responsibilities for regulatory reform, made a study of the anti-competitive effects of airline regulation. The

research became an important part of the evidence cited for deregulation of the airline industry and reduction of air fares.

Brookings in 1979 embarked on a second series of studies focusing on the economic impact of environmental, health and safety, and consumer protection regulations enacted by government in recent years. Many of these newer regulatory mechanisms, according to Robert Crandall, program director, were enacted without much regard for economic efficiency.

Another Brookings study looked at the extent to which economic status and material wealth were inherited. John Brittain found that gifts and bequests accounted for half or more of the worth of wealthy men and women, lending support to the view that inheritance was a major factor in the persistence of inequality in the United States.

Brookings also conducts conferences on public policy for senior executives in government, business, labor, and the professions. Young scholars and researchers are offered opportunities to work with senior Brookings staff and in federal agencies.*

National Bureau of Economic Research

The bureau was founded in 1920 and initially concentrated on empirical research on the national economy. It contributed to the development of basic

*In 1967 the Foundation helped launch a program of Economic Policy Fellowships at Brookings which enables younger faculty members to spend fourteen months in Washington, including eleven months on assignment with agencies of the federal government. More than 100 fellows have participated in the program.

statistics on national income and, above all, on business cycles. Bureau researchers formulated the index of leading indicators that signal turns in business activity. Simon Kuznets, the Harvard economist, was at the bureau when he did his work on the measurement of national income that won him a Nobel Prize.

The bureau has had a series of distinguished presidents, including Wesley Clair Mitchell of Columbia University and Arthur Burns, before he became a distinguished public servant. In 1977 it named Martin Feldstein of Harvard as president and moved its headquarters from New York to Cambridge, Mass. Feldstein, who teaches courses in macroeconomics and public finance, has shifted the focus of the bureau's research more directly to current questions of public policy, particularly the effect of government policies and taxation on capital formation. He has also become a spokesman for less government regulation and taxation and for more savings and investment.

The bureau is organized into five major research programs: economic fluctuations, business taxation and finance, labor markets, international trade, and investment and financial markets. Instead of maintaining a large in-house staff, it works mainly through a group of eighty academic economists who study particular problems. One of the bureau's most ambitious undertakings in recent years is a \$1.5 million project on capital formation, which is examining the effect of taxation and monetary and fiscal policy on savings and investment, and the influence of Social Security and private pensions on savings.

Financial support for the bureau has come from

the Foundation, from government, and, increasingly, from private corporations.

One of the best-known economists affiliated with the bureau is Milton Friedman of the University of Chicago, who won the Nobel Prize in economics in 1976 for his pioneering work on monetary theory, consumption, and other aspects of economic theory and policy. His single most important work, written with Anna J. Schwartz, is *A Monetary History of the United States, 1867-1960*, published in 1963, which traces monetary events, institutions, and policies during a century of American development.

Friedman has consistently argued that the failure to maintain the stock of money at a proper level in relation to output has been responsible for this country's economic difficulties down to the present day. Since publication of the *Monetary History*, Friedman and Schwartz, supported in part by the Foundation, have been spending much of their time on an even more ambitious project, a comparative study of monetary trends in the United States and the United Kingdom. One of their conclusions is that money and output in Britain and the U.S. have been closely interconnected, to the point where Friedman calls the two countries "fundamentally one economic unit." Economists are particularly interested in whether the Friedman-Schwartz analysis will show that institutional differences in the way the two countries manage their money are responsible for the greater severity of depressions in the United States as compared with the United Kingdom.

Resources for the Future

Although not exclusively an economic research insti-

tution, RFF relies importantly on the tools of economics in addressing the overall theme of how American society can better manage the use of natural resources to promote economic well-being. Subjects of its research, which has been published in more than 200 books and many more articles, have included the management of land, water, and air resources, environmental pollution, fisheries management, the urban environment, energy, resource shortages, and public lands.

RFF was organized under Foundation auspices in 1953 to look into the question of whether the welfare and security of the United States would be seriously affected by growing shortages of natural resources—a fear prevalent at that time. Its early studies documented the dramatic role that science, technology, and economic forces have played in keeping the supply of resources available at modest prices. Thus RFF argued that critical resource shortages would be unlikely during the rest of the century. But it also sounded warnings that modern societies might be less able in the future to counteract changes in the quality of life brought about by urban agglomeration, waste disposal and pollution, income maldistribution, and misuse of land and water resources. In recent years RFF has been taking a more sober view of the world's resource adequacy, stressing particularly the problems of unbridled population growth.

Among RFF's conceptual innovations has been its use of energy as a unifying concept in charting the development of the national economy. Staff member Sam H. Schurr and his colleagues have traced the decline in energy consumption per unit of gross national product in the U.S. in the years following

World War I, attributing it to changes in the structure of national output, increases in the productive efficiency of the economy, and increases in the thermal efficiency of energy use. The research has suggested that further changes in the structure of the national economy might make a major contribution to a reduction of energy use without impairing the standard of living.*

In 1978 RFF's Hans Landsberg and a group of twenty prominent scholars conducted, with separate Foundation support, a study of U.S. energy options. Titled *Energy: The Next Twenty Years*, the study concluded that while the world was not running out of energy, energy prices should be allowed to rise to reflect marginal cost in order to provide an incentive for conservation and development of other energy sources (see page 16).

RFF is also noted for its creativity in applying economy theory to the evaluation of resource problems. For example, Allen V. Kneese and Charles L. Schultze have argued that environmental pollution

*Crawford D. Goodwin, a Duke University economist, also examines the relationship between energy and economic growth in a Foundation supported study he and several other economists conducted for the Brookings Institution on U.S. energy policy formation since World War II (*Energy Policy in Perspective: Today's Problems, Yesterday's Solutions*, Crawford D. Goodwin, editor, the Brookings Institution, 1981). He notes that early projections of the Truman Administration assumed that economic growth was linearly related to energy production, and that energy shortages might thereby place a constraint on growth and lead to economic stagnation. It was not until the early 1970s that the notion became prevalent that consumption of energy per unit of output was not necessarily fixed and attention shifted to the possibility that the production of goods and services might grow more rapidly than energy consumption.

can be better controlled by charging polluters a fee. Although this idea of effluent charges has yet to be accepted widely by policy makers, it has won many adherents because it would cut down on cumbersome environmental regulations and require a polluter to pay for the harm he causes to the environment.

For most of its history RFF has been dependent upon the Foundation for the bulk of its support (a total of \$55 million), but in recent years it has diversified its funding base to include other foundations and government-sponsored research.

Trade Policy Research Centre

The center was founded in 1968 in London to promote discussion in the United Kingdom of the growing integration of the world economy. It commissions research on trade and other international economic issues and publishes *The World Economy*, a quarterly whose aim is to clarify understanding of international economic affairs.

In its early years, the center's guiding intellect was the late Professor Harry G. Johnson of the University of Chicago and the London School of Economics. Johnson was a major contributor to the modern theory of tariffs, to the integration of theories of international trade and economic growth, and to a modern synthesis of Keynesian and monetary approaches to economics. Director of the center is Hugh Corbet, a former economics writer for the London *Sunday Times*. Its governing council is made up largely of British, European, and U.S. academic and business leaders.

A major theme of the center is that the rapid

integration of the world economy has outpaced the development of political thought and institutions for managing change in the world economy. Its work, which is primarily addressed to policy makers and business leaders rather than specialists, strongly supports the principles of trade liberalization and the removal of barriers to the free flow of commodities and investment. For example, articles in *The World Economy* have attacked efforts to restrict the international steel trade on grounds that they tend to lock resources into low-productivity plants and to stifle economic growth.

Overseas Development Council

ODC was organized in 1967 by leaders from American business, labor, government, universities, and citizens' groups to act as a link between policy makers in Washington and the academic and other communities interested in the development of Third World countries.

The council pursues four main tasks: research on the development process, analysis of U.S. foreign aid policies, public education on these issues, and liaison with governmental and nongovernmental bodies and international agencies concerned with aid to the less-developed world.

Over the years it has pursued as research themes the green revolution, revision of U.S. aid programs, trade policy, world interdependence, food and energy, and women in development. Like the Brookings Institution, ODC annually publishes an assessment of the issues with which it deals, under the title *The United States and World Development: Agenda for Action*. One of its most widely distributed publica-

tions is *By Bread Alone* by Lester Brown, which deals with the world food crisis.

The organization has relied on three arguments in defense of aid programs: 1) raising production in the LDCs, coupled with more equitable distribution of income, is an effective means of limiting population growth in these countries; 2) the donor countries can use aid as a lever to improve institutions in the LDCs and to improve the lot of the poorest segments of their population; 3) the developing countries are becoming the most important trading partners of the United States, so their health is inextricably linked to that of the U.S.

The council has experimented with a unique "quality of life index," which goes beyond purely economic indices to measure the progress of poor countries in meeting basic human needs. Besides economic indicators, the index includes such other measures as life expectancy, infant mortality, and literacy.

ODC has been headed from its beginning by Rev. Theodore Hesburgh, president of Notre Dame University, who serves as chairman, and, until 1979, by James P. Grant, a former U.S. foreign aid official, as president. John Sewell succeeded Grant as president.*

Institute for Research on Public Policy

Although Canada has produced some of the world's most distinguished international economists, it has not developed a strong analytical capacity in the field. Traditionally, many of Canada's economists have migrated to the United States and other countries. To remedy this deficiency, the Institute for Research on Public Policy in Ottawa with support from the Ford Foundation established a research unit in 1979 to reassess Canada's trade and economic development strategies as it enters a new era in world economic relations.

IRPP is itself a newcomer to the field of public policy research, having been established in 1974 on the initiative of Canada's business, academic, and governmental communities. Its program in international economics focuses on the particular problems Canada faces as a nation dependent upon trade for its economic health. Anticipating a slower rate of economic growth among Canada's traditional trading partners in the West, IRPP is looking to the newly emerging economies in the Pacific and other regions of the world as potential sources of trade and investment. The institute also studies such issues as regional imbalances in the Canadian economy, the effects of rising energy prices, and relations with the United States and Mexico.

*A comparable organization in Great Britain is the Overseas Development Institute. Receiving some \$1.4 million in Foundation support from 1960 through 1975, ODI has focused its research on such issues as British aid policies, the role of regional development banks, international trade negotiations, and relations between rich and poor nations. It has been an important

influence in maintaining a consistent British commitment to the development of Third World countries. Among prominent British scholars affiliated with the institute have been the late Lady Barbara Jackson, the late Sir Andrew Shonfield, and Paul Streeten.

Conclusion

The United States is confronted with enormous economic problems as it enters the 1980s. Inflation is distorting economic activity, undermining the value of the dollar, and increasing social tensions. Continued dependence upon imported oil forces energy prices ever higher and limits economic growth and productivity. The traditional tools of economic management do not seem to be working.

U.S. economic policy is constrained, moreover, by the growing interdependence of the world economy. Actions taken by one country spill over into another, making international cooperation more important. Yet such cooperation is being hindered by a lack of understanding of how the international economy works and by the clash of national interests.

As the new decade begins the conviction is growing that the collective impact of the many changes that had occurred in the economy is akin to the making of a new economic system, which is operating very differently than it had before. Economists,

and indeed all social scientists, are faced with the difficult task of trying to understand the operation of this new system.

As a major national philanthropy that has given substantial assistance over many years to the strengthening of the social and economic sciences, the Ford Foundation is continuing selectively to support activities that will lead to a greater understanding of how the world economy works and to the fashioning of more effective tools for guiding and controlling it. Research, scholarly communication, and the linking of researchers and policy makers are being supported to improve knowledge of domestic and international economic policy issues, including inflation, unemployment, trade, the monetary system, and North-South relations. Attention is also being given to strengthening research and economic management skills in the less-developed countries and to activities that will lay the groundwork for greater international cooperation on economic matters.

Ford Foundation Grants for Economic Research*

American Enterprise Institute			
General support (1972)	\$ 300,000	Study of economic impact of environmental, health and safety, and environmental regulations (1979)	150,000
Review of wage and price controls in the US (1974)	30,000	Study project on the United States and the advanced developing nations (1979)	125,000
Bangladesh Bank		Partial support of new international economics unit (1981)	300,000
Research on international economic issues (1979)	176,000		
Brookings Institution		University of Chicago	
Research on taxation and inheritance of wealth (1973)	336,400	Flexible exchange rates and capital mobility (1975)	45,500
Conference and book on "Higher Oil Prices and the World Economy" (1974)	100,000	Corporation for Latin American Economic Research (Chile)	
Comparative evaluation of national stabilization policies in industrial countries (1976)	121,846	Research on Latin American economic and social policy issues (1976, 1980)	875,000
Setting National Priorities series (1977, 1979)	300,000		
Study of anti-inflation proposals (1978)	75,000		
General support (1978)	2,000,000		
History of US energy policy from 1945 to present (1978)	100,000		

*A selected list of grants made by the Foundation from 1969-81 for work by economists and institutions that engage in economic and related research.

European Cooperation Fund (Belgium) Establishment of Centre for European Policy Studies (1981)	225,000	Japan Center for International Exchange Research on Japan's international economic relations (1978)	270,000
Foundation for Higher Education and Development (Colombia) Analyses of Colombian trade with Andean countries (1979)	60,000	Latin American Institute for the Study of Transnationals (Mexico) Research on Latin America's international economic relations (1979)	250,000
Graduate Institute of International Studies (Geneva) Study of national economies and the international monetary system (1974)	108,000	Marga Institute (Sri Lanka) Research on international economics (1981)	90,000
Independent Commission on International Development Issues (Geneva) Study of North-South economic relations (1979)	200,000	Massachusetts Institute of Technology Research on international trade in U.S. agricultural commodities (1975)	36,200
Indian Council for Research on International Economic Relations Research and workshops on India's external economic affairs (1981)	355,000	National Bureau of Economic Research General support (1969) Study of monetary trends in the United States and the United Kingdom (1977)	2,000,000 112,000
Institute for Research on Public Policy (Ottawa) Studies of Canadian trade and economic policies (1979)	450,000	Location of manufacturing enterprises by U.S. multinational firms (1977)	79,904
Institute of Southeast Asian Studies (Singapore) Research on the international economy as it pertains to Southeast Asia (1979)	339,000	Conference on import competition (1979)	46,750
International Development Center for Japan Research on Japan's economic development and its relevance to developing countries (1975, 1978)	234,200	Employment problems of inner-city youth (1979, 1980)	81,900
International Economic Association (Paris) International meetings of economists (1973, 1978)	395,000	National Committee for Full Employment Research and seminars on employment and inflation (1977)	45,000
Interreligious Peace Colloquium Meetings on the changing world economic order (1977)	75,000	National Council on Employment Policy Manpower and poverty studies (1975, 1978)	171,000
		Support for Center for Social Policy Studies (1971-1980)	652,943

New York University		Royal Institute of International Affairs (London)	
Research and writing by Professor Wassily Leontief (1975)	84,012	Research on capital intensive industries in less-developed countries (1977)	55,400
Organization for Economic Cooperation and Development (Paris)		Tel Aviv University	
Long-term growth patterns of less-developed countries (1977)	75,000	Exchange rate policy for a small country (1975)	42,300
Overseas Development Council		Thammasat University (Thailand)	
General support (1969-81)	1,825,000	Graduate research and training in international economics (1979)	125,000
Overseas Development Institute (London)		Trade Policy Research Centre (London)	
Research on British aid policies, international trade, and North-South relations (1975, 1980)	365,000	Studies, seminars, and publication on international economic issues (1976-81)	453,500
University of the Philippines		Urban Institute	
Graduate research and training in international economics (1979)	201,750	Women's policy research center (1975, 1978)	600,000
Pontifical Catholic University of Rio de Janeiro		Vanderbilt University	
Graduate research and training in international economics (1979)	250,000	Transmission of economic disturbances among countries (1979)	40,000
Princeton University		University of Western Ontario	
Aspects of international financial integration (1975)	63,340	Trade liberalization and barriers to trade (1977, 1978)	135,600
Seminars on international monetary economics (1977)	48,121	University of Wisconsin	
Resources for the Future		Effects of international economic policy on efficiency, employment, and distribution (1975)	100,000
General support (1969-79)	33,000,000		
Study of energy policy alternatives (1978)	82,500		